



SHARPENING THE FOCUS ON CORPORATE FRAUD

AN AUDIT COMMITTEE PERSPECTIVE



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1. INTRODUCTION AND POINTS FOR FURTHER DISCUSSION

This publication is the second of two interview-based publications about fraud. The first, published in July 2022, looked at corporate fraud from the perspective of auditors. [Sharpening the Focus on Corporate Fraud: An Audit Firm Perspective](#), was based on interviews with 14 senior staff from large UK audit firms. Its introduction notes that trust is hard won and easily lost, and that the reputational damage arising from fraud – which can be greater than the cost of the fraud itself – spreads far and wide.

Neither audit committees nor auditors set out to miss or ignore fraud. Financial reporting fraud rarely hides in plain sight and is not obvious because it involves dishonesty and deception. Fraud is deliberately hidden from, or misrepresented to, both those charged with governance and auditors and material financial reporting fraud is often complex.

In the second half of 2022, ICAEW spoke to the 14 experienced members of audit committees listed in Appendix 2 about the same subject. Most of them are audit committee chairs and most also serve on the board of the UK's Audit Committee Chairs Independent Forum (ACCIF). Representing the audit committees of a very wide range of large UK and international companies, their collective knowledge and experience is immense.

We preceded each interview with a high-level review of the most recent annual reports of the companies with which interviewees were associated. We looked for disclosures relating to fraud, internal controls, cyber fraud and similar issues relevant to the interviews.

During the interviews, we sought to understand more about the nature and extent of the fraud risk from the perspective of audit committee members, as well as what the corporate sector is doing to improve the chances of preventing and detecting fraud. The views we heard were very wide-ranging, reflecting the diversity of industries represented by interviewees. However:

- an overwhelming majority emphasised the importance of the fraud risk, that it should not be underestimated, and that it is the responsibility of the entire board. Some also noted that fraud is not the only risk audit committees must address, and that it is not necessarily the most important. It is important for all stakeholders to hear this, particularly from those charged with governance.
- we also heard a lot about cyber risks: when we asked interviewees about what kept them awake at night, cyber was the most common issue cited.



Everyone on the board should be focused on fraud – it can quickly take you down, especially cyber fraud. IGM

External auditors are concerned about material fraud within the financial statements, but audit committees necessarily look at fraud through the lens of risk management in the context of their wider corporate governance duties. This publication therefore deals with fraud from a broader perspective than the publication based on interviews with auditors. The interviews we conducted, based on the questions set out in Appendix 1, reflect that difference of focus.

POINTS FOR FURTHER DISCUSSION

Discussions with interviewees were wide-ranging. Fraud has many aspects from the perspective of audit committees, including internal control, risk management, technology and wider operational issues. The points for discussion below reflect our summary of these necessarily disparate issues, taking account of the points made by auditors. Each point is relevant to the implementation of UK corporate governance and audit reform proposals.

- 1** Audit committees and external auditors agree that audit regulators should focus the regulatory framework for fraud on companies rather than auditors.
- 2** Audit committees should seek to understand better external auditors' concerns about the risk of fraud, and external auditors should seek to understand better audit committee responses to their concerns.
- 3** Audit committees and external auditors agree that culture plays a critically important role in fraud risk management. Further consideration should be given by all stakeholders to how the regulatory framework, auditors and audit committees can promote good corporate culture.
- 4** Internal controls are a means to an end, and stakeholder consensus has yet to be achieved regarding the costs and benefits of different styles of internal controls reporting. While the SOX model would not work in the same way in the UK as it did in the USA, and the financial services sector model will not operate the same way in the wider corporate sector, the widely acknowledged benefits and the best characteristics of both systems should be considered carefully.
- 5** Audit committees should consider the need to periodically and pro-actively review risks and controls relating to fraud, cyber risks and other emerging threats emanating primarily from outside the organisation.

2. HOW INTERVIEWEES RESPONDED TO AUDITOR RECOMMENDATIONS

The auditors we interviewed for our previous publication, [Sharpening the Focus on Corporate Fraud: An Audit Firm Perspective](#), noted that directors and management of corporate UK have the primary responsibility for deterring and detecting fraud. In that publication, we included recommendations for the corporate sector. Many of the audit committee members we interviewed for this publication had thought carefully about those auditor recommendations. Their reactions to the recommendations are summarised below. They provide a basis for further discussion.

We suggested in our previous publication that, among other things, executive and non-executive directors should:

- consider doing more to better understand auditors' concerns about the risk of fraud

All of the audit committee members we interviewed for this publication believed in the value of external audit, and many noted that the value is directly related to the quality of the audit engagement partner. But many also observed that the periodic nature of external auditor involvement means that their contribution, including the work they do on fraud, is limited and focussed on historic reporting.

- re-evaluate the overall company ethos

All of those we interviewed believed that corporate culture is critical to risk management generally, and fraud risk management in particular.

- consider the value of evaluating and reporting on internal controls

All listed companies and many other entities, particularly dual listed entities and those in the financial services sector, are already subject to a variety of internal controls reporting requirements. There were mixed views on the value of further internal controls reporting requirements. Some suggested that additional reporting requirements would have significant value, particularly for UK companies not already subject to SOX-style reporting requirements. Others suggested that the benefits were unlikely to outweigh the costs. Several suggested that some regulatory attempts to apply control and reporting requirements applicable in the financial services sector to the wider corporate sector were misguided, due to the absence in the wider corporate sector of the homogeneity found in the financial services sector. Others thought that the wider corporate sector has a lot to learn from financial services.

- reconsider the adequacy of the company's current approach to fraud risk management

Perhaps unsurprisingly, companies that had suffered a recent significant fraud or control failure were more likely than others who had not, to have reconsidered the wider approach to fraud risk management on a systematic basis.

3. FRAUD RISKS: WHAT KEEPS AUDIT COMMITTEES AWAKE AT NIGHT?

Unknown unknowns

We opened all of our interviews with a question about what kept the interviewee awake at night. While one told us that they acted on anything that worried them before they went to bed, most were less sanguine. Many paused for thought before they answered and most expressed concern about 'unknown unknowns'.

WHAT KEEPS YOU AWAKE AT NIGHT?

“

What you don't know. You can't manage something you don't know about. JL

“

Am I getting all the right information? How do I know a fraud isn't happening? MR

“

The 'best' frauds are the ones you haven't found yet and if they're good enough neither you nor the auditors will discover them easily, especially if management's involved. Persistent vigilance is therefore key. MM

Many interviewees cited cyber as a key unknown unknown.

“

Cyber, and only cyber, keeps me awake at night because of the increasing capacity of state sponsored hackers. SH

“

The constant external and internal cyber threat which we didn't have before. Constant cyber insecurity. AT

“

Cyber issues we don't know about. Perpetrators are increasingly aggressive and no amount of resource can deal with the threat. I know too many colleagues who thought they were safe. They weren't, and even the specialists didn't know what was happening. PK

Bad behaviour: entitled C-suiters and disaffected staff

The word 'toxic' in conjunction with 'culture' was not often used by interviewees, but they all talked about the importance of culture and what happens when the tone at the top is not right. Bad behaviour among senior management who don't walk the talk, described as 'entitled C-suiters' by one interviewee, and disaffected, resentful staff were seen as key fraud risks by some.

“

If the gap between head office and everyone else gets too big, there's an increased risk of fraud. ML

“

Most fraud isn't perpetrated by people trying make a life-changing amount of money, mostly I have seen disaffected staff trying to get back at the company or trying to cover up an error or mistake. ML

Collusion among senior management and collective board 'blind spots' were also noted, in one case as a 'fatal combination'.

“

Patisserie Valerie worries me. How did it happen? Are we sure that couldn't happen on our watch? Is there a real blind spot that we have missed? AF

“

Collusive fraud involving multiple members of management or third parties. NA

Known unknowns: the nature and extent of fraud risks

When it came to the known fraud risks, more confidence was expressed. While one interviewee said that systems going down kept them awake at night, others did not highlight this. The risks associated with systems are perceived as much better managed than they once were. Many interviewees expressed themselves in terms of strategic and cost-benefit issues.

“

Fraud costs, for sure, but so does preventing it. Ultimately the only way to eliminate any fraud risk is by stopping doing business. ML

“

Sometimes fraud is opportunistic and sometimes it's premeditated, but we need to be clear about exactly what fraud is - it's the intention to deceive. MR

“

The reputational cost of fraud can be a lot more important than the financial cost, though ultimately this will come together. ML

Fraud is not the only risk facing corporate UK, and many interviewees told us that perspective and perceptions are important.

“

Fraud is no different to any other risk, the only difference is public perception. Companies should only be reporting on the largest and most critical risks and they shouldn't be focusing disproportionately on fraud. SJP

“

Fraud isn't the number one risk for most of us, the risk sits at different levels in different companies. NA

“

The public perception of fraud is that it threatens the viability of the company, but that type of fraud is very rare. MR

Some interviewees offered practical insights and suggestions.

“

As financial crime increases, know your client and AML procedures have become a lot more robust. In 2022 we rejected about 40% of new client applications. SJP

“

Think about running formal risk and fraud workshops with management every year - it keeps the risk and fraud assessment up to date and at the front of people's minds. JL

Other interviewees were more cautious. One interviewee was particularly despondent about the difficulties associated with detecting collusive management fraud before it is too late. Another noted that fraudsters are often long-standing and trusted directors or staff. One reflected on global dynamics affecting fraud.

“

We're coming to something of an inflection point at a jurisdictional level about our global relationships - dealing with fragmentation in the regulatory environment increases complexity for multi-national boards and it isn't great for fraud and cyber threats. IGM

4. CULTURE AND BEHAVIOUR, REGULATION AND CONTROLS, DISCLOSURE

Culture and behaviour

All interviewees underlined the importance of the right corporate culture in the management of risk generally. This emphasis was marked. Some interviewees were clear that they did not want to be associated with companies with poor corporate culture, and that it was one of the most important issues for them when deciding whether to accept an appointment to an audit committee.

The tone at the top and KPIs

If the tone at the top drives behaviour further down, and KPIs drive the tone at the top, the significance of KPIs is magnified, and the associated fraud risk needs to be managed.



You should anticipate an increased risk of fraud where management is heavily remunerated on certain KPIs. But if you don't want people to work hard to meet those targets, there's no point in having them, so if you do want them to push hard you have to accept the risk that goes with it. MM



The number one consideration around fraud is motivation, which is so often tied to short or long-term financial interests. Accordingly, auditors need to ensure they understand the drivers around compensation and reward from the bottom up and the top down including the implications of share price movements. This requires auditor engagement with the compensation committee as well as the audit committee. JB



Problems arise when people think someone else has their nose in the trough. We need to be seen to be frugal and honest. ML



Audit committees should be looking at cultural issues - staff turnover, reasons for leaving and Glassdoor reviews. SJP

Creating the right expectations

Interviewees were clear about the need for staff to be comfortable about bringing problems to the attention of management, about the risks associated with the fear of doing so, and about the dysfunction associated with mixed messaging and unclear expectations on the part of management.

“

My basic principle is that bad news travels faster than good. I won't see you fired for making mistakes, but I will if you hide them. MM

“

The 'bring me solutions, don't bring me problems' culture needs to change. I need to know what's wrong. SH

“

Cultural and behavioural issues across the organisation increase the fraud risk - especially a lack of collaboration, fear of speaking up and unclear expectations. SH

“

Remote working has reinforced some basic controls by getting rid of unofficial ways of doing things. ML

“

Trying to develop and improve culture in an organisation is hard. When people work from home, it's ten times more difficult. AF

Regulation, controls and controls reporting

The relationships between regulation, internal controls and reporting on controls in relation to fraud are complex. Our interviews did not focus on specifics but we did get a high level perspective from most interviewees on these relationships.

REGULATORY REQUIREMENTS - AUDIT COMMITTEES AND FRAUD

Companies with a premium listing in the UK are required to report on how they have complied with the UK Corporate Governance Code (The Code), on a comply or explain basis. The Code and associated guidance make no specific reference to fraud. Boards must establish procedures to manage risk, oversee the internal control framework, and determine the principal risks for the company.

Companies subject to regulation by the Financial Conduct Authority (FCA) are provided with FCA guidance relating to fraud and financial crime, with examples of good and poor practice derived from FCA thematic reviews.

Current audit reform proposals will require the annual reports of larger companies to contain a fraud statement, including the measures taken to prevent and detect fraud.

Does regulation make a difference?

The auditors we interviewed for the previous publication, and some we interviewed for this publication, agreed that it is the reputational damage arising from fraud that leads boards to act, rather than regulation. Others took a more positive view, particularly regarding internal controls reporting.



I don't think regulation makes much difference. It's the awareness of the economic consequences of the reputational damage arising from fraud that leads boards to act. The pressure comes from the market, not sanctions.

PK



Directors being required to make a positive statement on internal control effectiveness will provide more transparency on how responsibilities are fulfilled; it's likely to make controls more dynamic and thereby effective in a changing business. JL

“

New legislation enacted in 2020, sponsored by the Capital Markets Commission, has been a key factor in significantly enhancing listed company Corporate Governance in Greece, the responsibility of which rests with the entire Board. The legislation introduced many aspects, including SOX-like requirements and independent assurance on COSO's 5 control components requiring much work across the organisation. EY

Interestingly, mixed views were expressed about the application of the controls applied in the financial services sector more widely.

“

There's a lot to be learned from the financial services sector on internal controls. SJP

“

There is a risk that regulators are trying to apply a standardised financial services risk model to a wider market through the auditors. It is unlikely to work because financial services businesses are largely homogenous and other businesses aren't. MM

“

It's critical to understand what regulators are looking for in financial services because the time and cost of making the tech and ops changes to be in compliance means that getting it wrong isn't an option. IGM

Whistleblowing

Several interviewees specifically highlighted whistleblowing in the context of fraud, despite the fact we only made a minor reference to it in our questions (Appendix 1, Q15). Some interviewees acknowledged the widespread use of whistleblowing facilities to air grievances about HR and other issues, but noted the importance of following up on all issues raised, regardless of their apparent irrelevance, as they can be indicators of more widespread weaknesses, including cultural failings at a corporate level.

“

It's not just about having the whistleblowing lines in place, it's what you do with them that matters. AT

“

Only 20% of whistleblowing issues have a bearing on internal controls but that's still incredibly useful. PK

Getting the balance right

The costs and benefits of regulation and controls can be hard to measure – particularly the benefits – and even more so when the focus is on fraud. Interviewees noted the need for a pragmatic, balanced approach but also the difficulties associated with agreeing on working assumptions.

“

Everyone should have three lines of defence, but you have to calibrate it right to make it work. SJP

“

Assuming what works in one market will work for others, especially in SOX-based models, is arrogant. There is no one size fits all for the world model. In markets that are less mature or even those that have embedded cultural behaviours that are anti the types of legislation that are well understood in Western culture – it may require a very different route to achieve a similar outcome. IGM

“

You can certainly go overboard on controls – too many can stop people doing their jobs properly, but self-governance and less developed controls are what got us here. IGM

Disclosure – a focus on greenwashing

As noted in the introduction above, we preceded each interview with a high-level review of the most recent annual reports of companies with which interviewees were associated. We looked for disclosures relating to fraud, internal controls, cyber and similar issues relevant to this publication. This resulted in interesting discussions about major reviews of systems and controls, and about the work involved when control failures led to regulatory or other sanctions. But discussions often led to a focus on ESG disclosures, and ESG-related 'fraud', because of recent global reporting developments, and further proposed reporting requirements.

One interviewee noted that ESG targets give rise to the risk of fraud and error because of a lack of both standardisation and experience in measurement and reporting. Another suggested that greenwashing is now a bigger risk than financial reporting misrepresentation. Several suggested that they were caught between a rock and a hard place, in that both disclosure and non-disclosure lead to adverse comment.

All of the quotes below were made in the context of ESG disclosures.

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Risk management processes over ESG reporting are generally less mature than those over financial reporting, so greenwashing is an area of focus for audit committees.

LB

“

Sustainability standards are still in the start-up phase so it's difficult for auditors and management alike. Some companies are disclosing less to avoid accusations of greenwashing. AT

“

Disclosing something gets you accused of saying the wrong thing. Not disclosing something gets you accused of hiding it. AT

“

Fortunately, we are finally seeing promise of global progress toward common ESG reporting standards and the emergence of experienced ESG professionals. Unfortunately, the road to meaningful, reliable, comparable, and independently verified reporting will be predictably rocky. There will be many opportunities for material errors and fraud that could be a road to ruin for those companies and their auditors who do not apply a healthy level of professional scepticism along their journey.

JB

5. CHALLENGE: RELATIONSHIPS WITH MANAGEMENT AND AUDITORS

Challenging management

The independence of the audit committee and its role in the review of corporate performance in terms of controls effectiveness, financial reporting and risk management mean that it must challenge management. Effective challenge, interviewees noted, involves the right sort of challenge, and a non-adversarial relationship with management. It also needs to be documented.



Audit committees challenge management a great deal more than they did 15 years ago. AF



While some boards look for an adversarial approach from audit committees, the audit committee's job is to support and to challenge and to do that effectively there needs to be a good relationship with management. AF



Challenging management in a divisive way just builds barriers. Some people look for an adversarial audit committee chair but is that really the way to be effective? AF



In financial services, challenge doesn't exist if it's not in the minutes. SH

The relationship with internal audit

Interviewees spoke highly of internal audit.



Internal audit should be the people with the time, budget and personality to really challenge management on the effectiveness of controls. ML

“

Internal audit looks at data through a different lens compared to the external auditors and organisations are learning a lot from them about fraud risk. AF

“

Internal audit absolutely has value when it comes to fraud detection. PK

The relationship with external audit

A high proportion of interviewees were ex-auditors, with significant experience of audit at partner level. They had a deep and often relatively recent understanding of how audits and audit firms work, including their limitations. Many emphasised the importance of the quality of the individual audit engagement partner.

“

The audit partner sets the tone from the top in the audit team. It's crucial to ensure you work with the right audit partner. AF

One interviewee told us that an overwhelming number of audits are high quality, and that most audits are not 'bad', but that rather a handful of individuals are. Interviewees were generally pragmatic about the limitations of external audit, particularly in the context of fraud. One suggested that the likelihood that auditors will find some frauds without forensic experts is 'pretty small'.

“

It's management's job to worry about fraud. It's the auditor's job to worry about material fraud. AF

“

Materiality for big organisations is usually a telephone number so unless fraud occurs at a bank heist scale, it just isn't in audit scope. ML

“

Auditors can only assure assertions and the absence of material fraud isn't really an assertion except at a very high level. PK

“

No amount of regulation or guidance can make auditors better at identifying risks. NA

“

The board and management are responsible for fraud, not the auditors, and if management is determined to cover up a fraud, the auditors will be stretched to find it. MM

“

External auditors are just one element of our assurance toolbox in fighting fraud. AF

Interviewees also commented on how external audit can help internal audit, but also on what more external auditors need to do to find fraud.

“

External auditors are great at communicating wider market movements and regulatory changes which helps with the focus for internal audit. IGM

“

Auditors need to listen to analysts' briefings and read analysts' reports to understand their observations and in particular the questions asked of management. Analysts are professionals deep in a sector that spend their days analysing the competitive landscape with a focus on advantages, threats, anomalies, irregularities and risks to share price so they can act before they lose value. Surely this insight would provide early indicators of systemic fraud. JB

We did not ask interviewees about audit costs but many noted significant increases in audit fees in recent years.

6. CYBER, CYBER SKILLS, AND WHAT A GOOD AUDIT COMMITTEE LOOKS LIKE

Cyber

All interviewees articulated their positions confidently and with good humour – as might be expected given their seniority and breadth of experience. But when we came to cyber, they were all less confident, and more concerned – the interviews turned a shade darker.



All companies, regardless of industry, are targets for cyber fraud. You can never be complacent. SH



We're not ahead of the game. Anyone who thinks they are clearly doesn't understand the game. SH

OT and IT

Operational technology (OT) is often so fundamental to the integrity of many larger businesses that to date it has generally been offline. Information technology (IT) systems are usually online. While the combination of OT and IT may be necessary, interviewees expressed concerns about the associated risks.



You have to ringfence to protect against cyber risks. IT systems are usually connected to the Internet but your OT is so fundamental to the integrity of the business in older systems OT has been offline. There is pressure when upgrading to new systems to combine OT and IT and move it all into the Cloud – because 'data is king' and managing the interface between the two is absolutely critical. NA



If OT is online it is critical that the interface with IT is effective and working to reduce the risk of back doors into key systems. AF

“

Protecting customers from fraud is our duty and a big part of that is safeguarding their information. To manage cyber and tech platform risk, there can be no single point of failure - distributed back up and failover is critical. IGM

Cyber skills

We asked interviewees about the market for staff with cyber skills, the need for cyber expertise on boards, and the cyber skills of auditors. Interviewees with cyber expertise already on the board or audit committee seemed glad of it, but others were concerned that the right balance of skills is needed, perhaps of necessity, given the scarcity of such skills at a senior level.

“

Cyber specialists are expensive and rare outside financial services which is a real problem. Auditors are generally well informed, although the level of expertise in challenger firms and, indeed, regulators can be patchy. SJP

One interviewee said that, rather than seeking to minimise the audit fee, they routinely consider the need for additional audit procedures and fees to cover not only cyber issues, but ESG issues, and geographical locations at a higher risk of fraud or reputational damage, even where materiality levels are low.

What a good audit committee looks like

Having the right people on the audit committee is a pre-requisite for it to be effective. Interviewees also told us that it needs access to the right information, and the right people within the organisation.

What audit committees are for

What a good audit committee looks like depends on what an audit committee is perceived to be there for, and that varies and continues to evolve. One interviewee suggested that in some sectors, fraud risks need to be considered by a risk committee, rather than the audit committee, for example.

Among other things, audit committees are there to challenge management on many issues, and expectations and requirements of management therefore shape the audit committee's focus.

“

The Siemens corruption scandal led to a significant change to board culture in Germany. The court said that it's the CFO's job to ensure internal control compliance globally and that CFOs are therefore responsible for non-compliance. PK

“

The role of a board is to be forward looking. We are always thinking about how we can future-proof the business. In the current environment the amount of flux and change makes that increasingly difficult to do - it is fast becoming more about your ability to pivot as soundly as you can. IGM

Skills on the audit committee

Interviewees agreed that the ability to ask the right questions and hold management to account is more important than simply having experts on the audit committee, but getting the right combination of skills and experience is also important, and often difficult to achieve.

“

There's a limited pool of people with the right skills available and everyone wants them. SH

“

If I sit on the board of an oil and gas company, it doesn't mean I need to know how to run an oil rig. It's about having enough knowledge to ask the right questions to hold people accountable. AF

“

It's about how we can get the support we need to ask the right questions and fulfil our monitoring role. The last thing you want on a board is a bunch of experts who don't understand each other. PK

“

Getting the right balance of skillsets on a board is difficult; if you increase financial experts it is at the deficit of other skill sets. SH

Keeping up

Perceptions of audit committees serving as sinecures for old-boy networks of retired directors, to rubber-stamp decisions made by the main board, have not quite disappeared. Several interviewees noted changes in expectations regarding the need to keep up to date.

“

The dinosaur excuse doesn't work anymore at board level - you need to upskill or move on. ML

“

Board members should strive to be intentional, proactive and prescient lifetime learners. JB

Access to information and people

No interviewee suggested that they did not have access to the right people and information, but most acknowledged that there is a right and wrong way of going about it. One interviewee noted that they considered that they had a right to speak to anyone in the organisation if they believed it necessary. Others said that they pro-actively 'walked the floor' and talked to staff and senior management, and that they considered themselves entitled to ask any questions they liked, to properly understand the culture of the business.

“

The escalation route to me as audit committee chair is absolute and private. MM

“

Management needs to be happy for you to have the information you need. You can't just go stomping around demanding things without at least sometimes explaining why. NA

“

As circumstances and risks vary, my approach may range from 'engaged but not intrusive' to 'benevolently intrusive' to 'persistently intrusive'. JB

APPENDIX 1: THE QUESTIONS WE ASKED

Risk management and the quality of information about systems

1. What sort of fraud keeps ACCs awake at night? Has fraud risen on the agenda of executive and non-executive directors? See [PwC's Global Economic Crime and Fraud Survey 2022](#)
2. Do you think culture, behaviours, the tone at the top and walking to talk make a difference to fraud in a business? In what way? Has the culture of your companies changed in recent years?
3. Are ACs appropriately equipped with competencies in fraud? Do ACCs have confidence in wider company processes for fraud prevention and detection? Specifically:
 - how have recent changes to risk management systems reflected changing concerns about fraud?
 - how do you manage the risk of immaterial frauds becoming material over time?
 - what are the main barriers to better fraud prevention and detection?
 - what do you think could be done differently, or better?
4. How could the information management provide to ACCs relating to actual frauds, and the risk of fraud, be improved?
 - where fraud was previously detected, how was it uncovered, and how did the company adapt and respond?
 - how well do you believe you challenge management in relation to accounting practices and treatment? Could ACs do more in this area?

Auditors

5. Has the role of internal auditors with respect to fraud changed in recent years? In what way? How effective is that role?
6. How about your external auditors – how does the AC satisfy itself that matters that should have been brought to its attention by external auditors, have been brought to its attention, taking account the implications for auditor reporting? How much 'negotiating' is there regarding fraud disclosures? Have your interactions with external auditors over the last five years impacted the way you address fraud?
 - how well do they engage with you in relation to the overall audit process and especially in relation to fraud risk?
 - what could they do better to better support you in this respect?
7. How has internal and external auditor use of tech – data, analytics and AI – improved your ability to prevent and detect fraud? Has it turned the dial on the company's fraud risk profile? Which areas have been most impacted?

Audit reform proposals

8. Do you think the current FRC proposals for reporting on financial, operational and compliance controls will better enable you to prevent and detect fraud? Do you think a SoX-style regime would have been better?
9. What is your view on the proposed requirement for companies to state the steps taken to prevent and detect fraud?
10. What else do you think external auditors and other stakeholders could do to better facilitate prevention and detection of fraud?
11. Does a mandatory audit and assurance policy have the scope to enhance your ability to prevent or detect fraud? In what way? Do you already have such a policy and, if so, do you think it will change as a result of these proposals?

Types of fraud, AML, bribery and corruption

12. Have you seen an increase in the threat of cyber fraud in recent years? Has this threat become more complex? How have you managed it?
13. What pandemic-related fraud have you seen, and what is emerging? How are you managing that?
14. How have you adapted to remote working? How have internal controls changed to accommodate this? Are you seeing an increased fraud risk through a hybrid working model?
15. Does the AC receive regular:
 - updates on the compliance programme, including on anti-corruption and AML efforts? Do you feel you have sufficient insight to oversee these areas?
 - an overview of all speak-up/whistleblowing reports? What has been done to resolve the underlying issues?
16. Does your Chief Ethics & Compliance Officer (CECO) report into the audit committee? If so, is it a solid or dotted line? Who line manages the CECO?

APPENDIX 2: INTERVIEWEES



Jock Lennox

Jock is currently audit committee chair of Barratt Developments plc and chairs the Audit Committee Chairs' Independent Forum (ACCIF). He is also non-executive chairman of Johnson Service Group plc. He was a partner for 20 years at EY working as an auditor and advisor to a range of UK listed companies and he held a number of UK and global leadership positions.



Lucinda Bell

Lucinda is audit committee chair of Derwent London plc and Man Group plc and serves as a non-executive director of Crest Nicholson Holdings plc. After holding a range of financial and tax positions at The British Land Company she was CFO from 2011-2018.



Mary Reilly

Mary was a partner at Deloitte for over 25 years specialising in manufacturing, luxury retail and business services. She is the audit committee chair of both MITIE plc and Essentra plc. She is also a non-executive director of Gemfields Group Limited and is on the board of Mar Holdco S.a.r.l.



Shonaid Jemmett-Page

Shonaid has a strong financial services background having been partner at KPMG within financial services in London, and is now a non-executive director of Aviva plc and is audit committee chair of Clear.Bank Ltd. She was previously SVP of Finance & IT of the Home & Personal Care Division of Unilever and is now chairman of Greencoat UK Wind plc and non-executive director of QinetiQ plc.



Matthew Lester

Matthew has extensive public company experience as Group CFO of both Royal Mail plc and ICAP plc. Having previously served as a non-executive director of Barclays Bank plc he is now audit committee chair of ICG Group plc and chairman of Kier Group plc.

**Alan Ferguson**

Having previously been CFO of Lonmin plc, Alan is now audit committee chair of AngloGoldAshanti and Harbor Energy. He has over 20 years of executive experience in the mining and automotive industries and over ten years' experience as an audit committee chair.

**Michael McKeon**

Michael is currently audit committee chair of both National Express Group plc and Point Park Properties (P3) SARL. He served 15 years as a public company CFO and was ICAS President from 2019-2020.

**Simon Henry**

Simon is audit committee chair and non-executive director of Rio Tinto after spending 35 years in an executive career with Royal Dutch Shell plc. He is the senior independent director of Harbor Energy plc and a member of the board of the Audit Committee Chairs' Independent Forum. He was formerly on the boards of Lloyds Banking Group and PetroChina, and is a current member of the advisory board for the Centre for European Reform, a UK based think tank.

**Emil Yiannopoulos**

Emil is an independent non-executive director at Quest Holdings where is also audit committee chair, and at Attica Bank where is also an audit committee member; both listed companies. He was formerly a PwC Greece partner for 23 years, assurance practice leader and the deals advisory leader which he founded. A frequent public speaker and panel moderator on matters of corporate governance, banking, shipping and insurance.

**Jan Babiak**

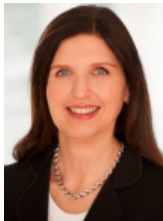
Jan is audit committee chair at The Bank of Montreal and Walgreens Boots Alliance and senior independent director at Euromoney. Previously a managing partner at EY, she held various UK and US based roles including leading cyber and IT security within NEMIA region and founding the global ESG related practice.

**Nicholas Allen**

Nicholas is the audit and risk committee chair of CLP Holdings. He has extensive experience in accounting and auditing in addition to securities and regulatory matters. Previously a partner at PwC he has experience in multiple international markets particularly Hong Kong. He was awarded Director of the Year 2017 by the Hong Kong Institute of Directors.

**Annie Thabet**

Annie has more than 35 years' experience in private equity, mergers and acquisitions and financing transactions, and in the management and repositioning of technology, industrial and manufacturing companies within Celtis Capital, for which she is a founding partner. She holds a number of non-executive director positions and serves on the audit committees of Russel Metals, Transcontinental and Manac.

**Professor Dr. Annette G. Köhler**

Prof. Dr. Annette Köhler is the audit committee chair of both DKSH and GEA Group AG. She is a university professor and chairs accounting, auditing and controlling at the University of Duisburg-Essen. From 2012 to 2017 she was a member of the International Auditing and Assurance Standards Board (IAASB).

**India Gary-Martin**

India spent her executive career in financial services. She held global positions at JP Morgan Chase & Co, Royal Bank of Scotland and Lehman Brothers, among others. She is currently a public and private company portfolio board director with a focus on Audit and Risk, and is notably the Chair of the Risk Committee for C. Hoare and Co. She is the CEO & Founder of Leadership For Execs, a global multi-disciplinary leadership & cultural transformation consultancy.

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March 2023, Interbrand, Best Global Brands 2022